■ THE LAST DAYS OF DREXEL • DENNIS LEVINE TALKS • THE ANXIOUS MIDDLE CLASS ■

MAY 21, 1990

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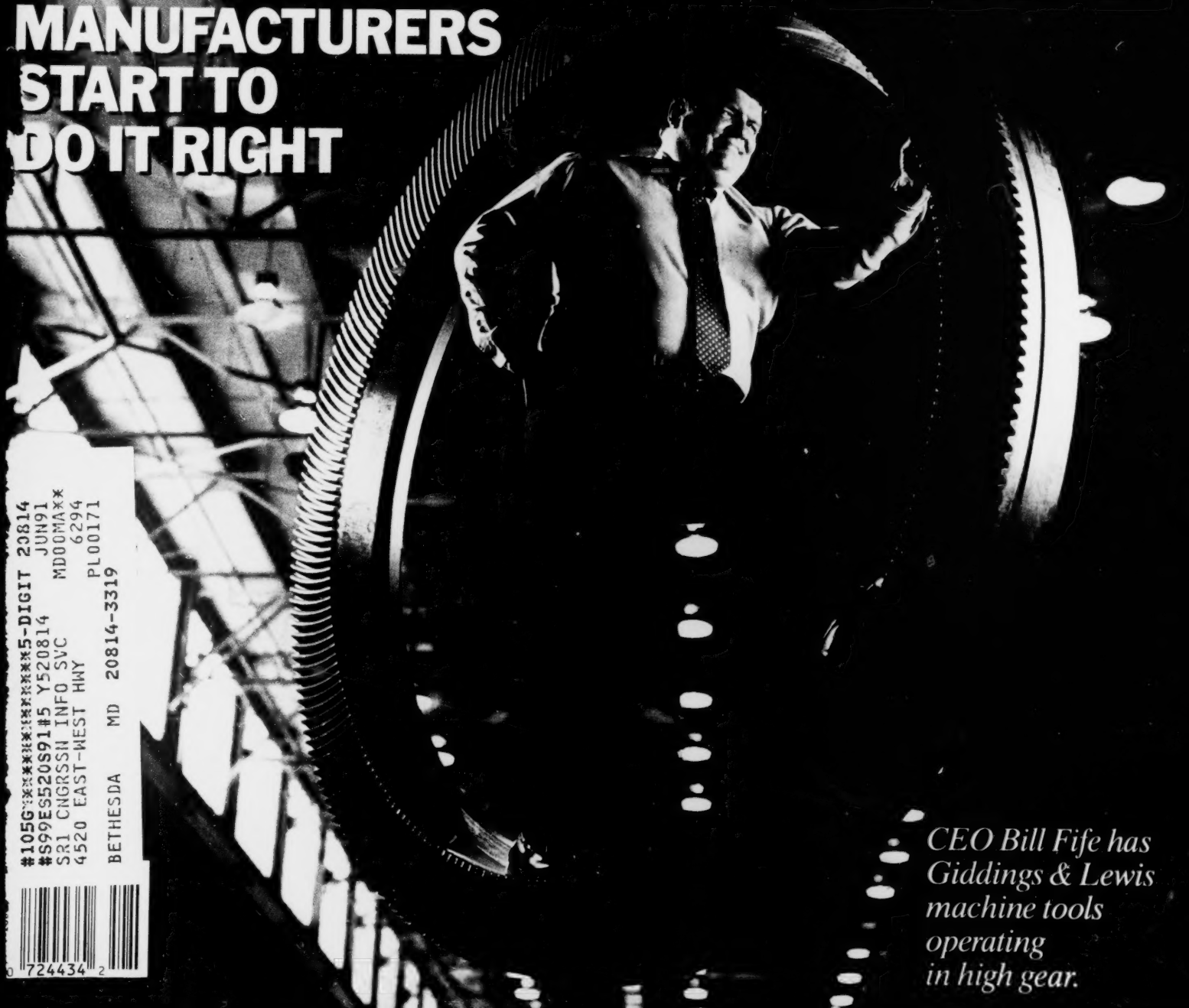
MANUFACTURERS START TO DO IT RIGHT



CEO Bill Fife has Giddings & Lewis machine tools operating in high gear.

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FORTUNE

ABOVE: Michael L. Abramson photographed this worker, about to cut teeth into a gear for a Caterpillar axle.

COVER: William J. Fife Jr., CEO of Giddings & Lewis, photographed by Louis Psihoyos (Matrix) inside a ring gear in the company's Fond du Lac, Wisconsin, factory.

"I believe in total flexibility. A plant should be able to produce axles in the day shift and engine blocks during the night shift." PAGE 54

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"We have become the second leading manufacturing nation and are slowly becoming the third."

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"Inside information is not always a sure thing: I lost as much as $250,000 on some trades."

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"God has spoken."

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"The baby-boomers are finding out later what their parents knew—raising kids takes effort and causes worries."

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"I've had people say they will consider a [job] switch after they marry off their daughter."

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EDITOR'S DESK

YOU WILL FIND in this issue the gripping inside story of the demise of Drexel Burnham and its inside traders. It is a two-part morality tale that begins in song—Dennis Levine's decision to cooperate with the federal prosecutors—and ends in tears—Michael Milken's, after Drexel, the junk bond behemoth, subsides beneath a sea of bile and red ink.

Producing the dramatic Wall Street morality tale (clockwise from lower left): Connelly, Kirsch, Sherman, Autry, and Fromson

Here, for the first time, Levine—a one-time Drexel managing director—tells in his own words the story of his fall, which precipitated Ivan Boesky's and indirectly set Drexel wobbling (see page 80). Just after Levine was arrested in 1986, Stratford Sherman of FORTUNE's board of editors asked him to write his story for us. Sherman heard nothing more until late in 1989, when he returned home to a message on his answering machine: "This is Dennis Levine."

Why, following his release from prison, did Levine agree to set pen to paper? Sherman believes "it was because I expressed open-mindedness." While reporter Sandra Kirsch checked the story's facts, Sherman served as editor. "My job," he says, "was to draw him out—to make him recall the vivid anecdote, relive the tough emotion."

Equally dramatic is writer Brett Fromson's intimate account of the fall of Drexel (page 90). So much money fled so quickly from the firm's coffers that the Manhattan headquarters at 60 Broad Street all but imploded early this year. FORTUNE looks beyond these death throes to reveal their cause—a complex confluence of people and events that for years conspired to bring Drexel down. Says Fromson: "When you understand Drexel's internal dynamics and the longstanding animosity focused on it by Wall Street, FORTUNE 500 CEOs, and the federal government, you can see how the end could come so fast." Julie Connelly, who edited the story, says, "Drexel made enemies gratuitously along the way. Later, at the right moment, each put in his harpoon."

Fromson and reporter Ret Autry spoke with over 60 sources, many of whom previously had refused to talk to the press—former Drexel officers, high-level employees and customers, officers at other Wall Street firms, and former federal officials. Startling facts emerge: how customers kept buying Drexel's wares until two days before bankruptcy shut its doors forever; how Drexel's Peter Ackerman, whose prowess at raising hostile-takeover money had terrified many a CEO, took time out during his firm's struggles to be co-author of a book on the strategic uses of nonviolence.

Did Drexel believe it could tweak corporate America's nose indefinitely with impunity? Yes, says Fromson: Hubris had fogged its vision. "Sure, they expected they'd catch flak," he says. "They were just off by a power of ten."

Marshall Loeb
MANAGING EDITOR

FORTUNE (ISSN 0015-8259). Published biweekly, with three issues in October, by The Time Inc. Magazine Company. Principal office: Time & Life Building, Rockefeller Center, New York, NY 10020-1393. Reginald K. Brack Jr., President; Joseph A. Ripp, Treasurer; Harry M. Johnston, Secretary. Subscriptions: U.S., possessions: one year (27 issues) $47.97; Canada: one year (27 issues) $64.53. Second-class postage paid at New York, NY, and at additional mailing offices. Authorized as second-class mail by the Post Office Dept., Ottawa, Canada, and for payment of postage in cash. Member, Audit Bureau of Circulations. POSTMASTER: Send address changes to FORTUNE, P.O. Box 30604, Tampa, Fla. 33630-0604. Customer inquiries: FORTUNE, P.O. Box 60001, Tampa, Fla. 33660-0001. Phone: 1-800-621-8000. © 1990 The Time Inc. Magazine Company. All rights reserved. FORTUNE is a registered mark of The Time Inc. Magazine Company. **For subscription queries, call Customer Service at 1-800-6218000.**

WHY SOME DO IT THE WRONG WAY

Most of America's business chiefs can think of several steps to improve U.S. manufacturing. On the whole, they see more trouble ahead—and a few bright spots. ■ *by Terence P. Paré*

ASK THE CHIEFS of America's largest companies why American manufacturing has declined over the past decade, and they'll give you a long list of reasons. A sizable minority say any decline is being reversed, but most don't dispute the premise. So who threw the overalls in Mrs. Murphy's chowder? CEOs round up many of the usual suspects. They blame poorly educated employees, a lack of capital investment, and the focus on short-term thinking they say Wall Street demands. A surprising number of bosses return a hefty share of the guilt to the in-box in the corner office. The number who assign responsibility for the competitive erosion to poor managers rivals the number who blame recalcitrant or inadequate workers.

These are among the findings of the latest FORTUNE 500 CEO Poll. Between April 2 and April 20, the opinion research firm Clark Martire & Bartolomeo questioned 200 chief executive officers of FORTUNE Industrial 500 and Service 500 companies.

Bosses think the ground is still firm in fundamental technology. Only 11% of CEOs feel that superior Japanese industrialists have an edge in basic research. Fewer than a third believe the Japanese have an important advantage in product development. Where America really lags, say 64% of CEOs, is in the lunch-bucket world of manufacturing.

Q **Among Japanese producers whom you consider superior to their U.S. competitors, in which one of these three areas do you consider the Japanese advantage most important?**

A

Manufacturing	64%
Product development	31%
Basic research	11%
Not sure	4%

Totals more than 100% because of multiple responses.

Some chiefs dissent. Fully 39% of CEOs deny that the U.S. has fallen behind in manufacturing over the past ten years. Says Allen F. Jacobson of 3M: "We did have a decline in the 1960s and 1970s caused by lack of attention to quality and complacency about productivity. But I think manufacturing is improving." Paul G. Schloemer of Parker Hannifin, the Cleveland maker of industrial equipment, concurs: "Manufacturing has gone through a revitalization in the 1980s. The U.S. will have a strong base in the 1990s."

But most of the chief executives would apparently agree with a study on manufacturing by the federal Office of Technology Assessment. Director John Gibbons writes in the foreword, "It was not part of the plan for the United States to fall to second rank, but that is what is happening." John McConnell of Worthington Industries agrees: "We have become the second leading manufacturing nation in the world and are slowly becoming the third."

One explanation may be found on the bosses' résumés. Only 32% of the chief executives of industrial companies have spent most of their careers in manufacturing, while 27% have shimmied their way up through finance and 25% through marketing. Allied-Signal's Edward L. Hennessy Jr. doesn't think the bosses' backgrounds explain America's manufacturing troubles. "It just doesn't work that way," he says. "The toughest guy I know is Red Poling at Ford—and he's from finance."

Q **In which part of your industry—finance, manufacturing, marketing, for example—did you spend most of your career?**

A

Manufacturing	32%
Finance	27%
Marketing	25%
Other	16%

Q **In U.S. industry in general, do you think professionals in manufacturing have as good career opportunities as those in marketing and finance, for example?**

A

No	50%
Yes	48%
Not sure	2%

Many of the chiefs think America fell out of love with manufacturing. Their favorite explanation, with a number of variations, is that Wall Street's to blame. In the Eighties financial engineers consumed as conspicuously as Roman emperors and rock stars. Wall Street had a fatal glamour. Says Robert D. Krebs of Santa Fe Pacific: "Everybody coming out of business school wanted to be an investment banker or a multinational marketing specialist." There was gold in the financial district, and no dirty fingernails. "Young people have been sucked into Wall Street by the balance-sheet-manipulation business and have been

"We did have a decline in the 1960s and 1970s. But I think manufacturing is improving."

ALLEN F. JACOBSON
Minnesota Mining & Manufacturing

HANS NEEMAN

Q **Few seem to dispute that U.S. manufacturing over the past decade has declined in quality and productivity compared with our major trading partners. Why do you think this has happened?**

A

It hasn't. Quality and productivity are rising.	39%
The labor force has shortcomings.	18%
Capital investment has been inadequate.	18%
Management focus has been on the short term.	17%
Management has shortcomings.	14%
Government regulation or tax policy has been misguided.	11%
Quality and productivity have not been emphasized enough.	10%
Other	16%

Totals more than 100% because of multiple responses

paid enormous sums of money for it," says Louis H. Pepper of Washington Mutual Savings Bank in Seattle.

John Burns of Vista Chemical suspects that the zeitgeist is shifting. Reason: "There may be a feeling now that these people who understand the numbers don't understand the company." L. E. Coleman of Lubrizol says, "Too many people are familiar with the numbers, but not enough with how things are made."

"We have become the second leading manufacturing nation and are slowly becoming the third."

JOHN McCONNELL
Worthington Industries

JAN STALLER

The question remains whether a manufacturing career has become more attractive in recent years. Half the CEOs say that manufacturing professionals face worse career prospects than do those in marketing, finance, and other fields. Says Arrow Electronics' Stephen Kaufman: "If enough financial executives go to jail, maybe we'll self-correct our way to getting better manufacturing executives. But for now, manufacturing is still seen as dark, dirty, and dangerous."

Wall Street, say many of the CEOs, also forced manufacturing managers into poor decisions. Nearly a fifth of the chiefs criticized management's short-term focus, some of it forced, they say, by investors' quarterly earnings demands. Says Kaufman: "The emphasis in American management is on making the quick buck, and that leads to avoiding long-term investments, either in product development or in manufacturing processes."

Not every competitive field has been surrendered to foreigners. Bright spots on the darkling plain include the computer industry, which 28% of bosses think is America's best world competitor. One-fifth of CEOs feel that the aerospace, aviation, and aircraft manufacturers are still worldclass. The bosses believe America's weakest competitors by far are the automakers. Fully 52% picked U.S. carmakers as international lightweights. The lapse in electronics—more than one in five CEOs tag it as a poor performer in the global market—disturbs Lubrizol's Coleman. He asserts, "If we ever go to war again, we will have to depend on our opponents for our weapons."

Bosses see a heap of other causes for the decline of manufacturing, and chief among them are the shortcomings of the labor force and inadequate capital investment. The labor issue troubles Dwight L. Carlisle Jr. of Russell, the textile and apparel maker: "The educational level of U.S. workers has dropped drastically, and they are unable to operate modern equipment without additional company-provided education." Adds James R. Eiszner of CPC International: "I attribute a great deal of the problem to the deficiencies in the education system, which result in a lack of skills and motivation."

Gene Cartledge of Union Camp disagrees. He says, "Given meaningful things to do, design that makes sense, and modern equipment, American workers are second to none." He's blaming management, along with 14% of his peers. Says B.F. Goodrich's John D. Ong: "In those industries where the Japanese are superior to us, they have paid greater attention to participatory management in factories and have a more highly educated and skilled factory management staff." Emmanuel Kampouris of American Standard is particularly hard on those at the very top: "The problem has been the lack of focus on manufacturing and quality in the boardroom. Senior management doesn't appear to care about the manufacturing process as much as it does about financial and marketing matters. And senior manufacturing executives are rarely represented at board meetings."

"If we ever go to war again, we will have to depend on our opponents for our weapons."

L. E. COLEMAN
Lubrizol

Q **Which U.S. manufacturing industry do you think looks best compared with its global competitors? Which looks worst?**

A

Best	
Computers	28%
Aerospace	20%
Worst	
Auto	52%
Electronics	22%
Steel	14%

Inadequate capital investment is a villain in the eyes of some CEOs. They say it arises partly from the country's pervasive short-term vision—why make investments that will take ten years to pay off?—and partly from capital's high cost. Says Allied-Signal's Hennessy: "We've got to begin to take the long-term view, boost capital investment—we are running at half the rate of Japan—and find a way to reduce the costs of borrowing." The Federal Reserve Bank of New York reports that from 1980 to 1988 the cost of capital for a factory with a 40-year life was consistently higher in the U.S. than in Japan, sometimes by more than six percentage points.

Every CEO seems to think the U.S. should commit itself to fight hard to regain world preeminence in manufacturing. Many believe it is already on the road back. But they see plenty of reasons why it will be a long, tough slog. F

HOW TO CLOSE THE HEALTH CARE GAP

Millions of Americans aren't insured, and many are losing protection because employers can't afford it. The industry and politicians are in a race to fix things. ■ *by Edmund Faltermayer*

IF YOU THINK your company's medical costs are off the fever charts, listen to Harry Featherstone. He's president and CEO of Will-Burt, an Orrville, Ohio, fabricator of automotive parts that employs 300. Will-Burt's health insurance premiums have nearly *quadrupled* in the past three years and now stand at $315 a month for a family, including the worker's 25% contribution. "We just can't afford this," fumes Featherstone, who worries about his ability to pass such costs along in the prices he charges customers.

Mid-Cities Honda, a motorcycle dealer in Paramount, California, endured even steeper increases—to $360 a month—as it bounced like a pinball among five insurers in ten years. The first carrier went bankrupt, leaving a worker liable for $8,500 in unpaid medical bills. Because one of the 18 current employees has Addison's disease, a malfunctioning of the adrenal glands, several insurers turned down owner Diana Slumskie before one agreed to take on the company.

At least everybody is fully covered. Less fortunate is George McAmis, 58, general manager of Stanford Glass Blowing Laboratories, near the university of the same name. He has undergone angioplasty, and the insurer of his five-person outfit stands ready with protection, except where it is needed most: for his heart condition, which is specifically omitted. The anxieties of such people, and of the self-employed, who often pay $1,000 a month to cover a family headed by a healthy male in his 50s (when they can find medical insurance of any kind), are material for a stadiumful of Franz Kafkas.

All of which should sober up those who are impatient to see health insurance extended to everybody. It's hard to be against protecting 33 million fellow citizens who have no coverage at all, especially when the U.S. is the only Western industrial power that leaves a large portion of its people ex-

For Diana Slumskie (center), the perils of keeping workers insured at her California dealership make motorcycle racing look like a quilting bee.

ALAN D. JERNIGAN

MICHAEL GREENLAR PICTURE GROUP

A new, cheap, stripped-down plan protects the Cavallo family.

posed to calamitous medical bills. But how to do it? State governments as well as the feds are devising megaplans to address the problem, leading insurers—frightened of what the politicians might dream up—to advance their own proposals. Nearly all the plans would help the unemployed through a beefed-up Medicaid. The battle is over how to help the far greater number of the uninsured who work for small companies, where coverage is eroding for those already protected. The way that issue is eventually resolved—and some sort of legislation looks likely—will affect the competitiveness of American industry and the health care costs of all U.S. companies, large and small.

The trouble is that small employers, ranging from beauty salons to Silicon Valley startups, pay dearly for policies that may be drilled full of exclusions—and they can encounter shocks. The monthly bill jumped more than fourfold at Forbes Consulting Group, a market research firm in suburban Boston, after a worker needed treatment for lymphatic cancer. Last year New York Life announced it would drop a group of employers that included an Oakland, California, software company called Soft Press. Erica Zeidenberg, one of two employees along with her husband, was pregnant at the time; the insurer offered them two substitute plans that would have been far more expensive than the original. Luckily, her baby arrived just four days before the old coverage ceased. It is hard to expect struggling entrepreneurs to offer medical benefits if the cost is both unaffordable and unpredictable. Nor does it do much good if the insurance policy promises life jackets to all but those who cannot swim.

How did we get into this mess? Because of brokers' commissions and higher administrative costs, small companies have always paid 15% to 20% more than big corporations for the same package of health benefits. But as medical costs have exploded nationwide, little outfits have been the victims of buck-passing. First the government's Medicare and Medicaid programs for the elderly and poor began tightening up on reimbursement of hospitals and doctors. Now giant corporations are starting to rein in health expenses with so-called managed-care techniques (FORTUNE, April 23). To make up for pinched revenue elsewhere, says Francis Miller, president of the Colorado Business Coalition for Health, hospitals and physicians are shifting costs to small business.

Exacerbating the problem, some insurers have distributed this ballooning burden unevenly among little firms. Practicing what they call risk selection, they aggressively cherry-pick the market by offering relatively low premiums to firms with young and healthy workers. Other employers pay much stiffer rates—up to eight times as much—or get the cold shoulder. Many carriers redline whole occupations rated as poor health bets, such as structural ironworkers (who risk falling), cosmeticians (exposed to chemicals on the job), restaurant employees (deemed a casual, sickness-prone lot), and those who work in motorcycle shops (ditto). Instead of spreading risks, the private insurance system has been shedding them.

The market was not always so chaotic. Health insurance in the U.S. began in the Thirties with Blue Cross and Blue Shield, nonprofit outfits started by hospitals and doctors. The Blues took all comers, big and small, at so-called community rates: To distribute the burden evenly across the entire population, they charged all employers in a region the same premiums regardless of their workers' ages or medical histories.

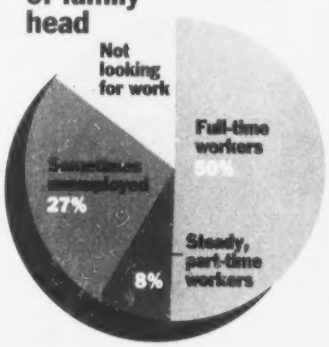
This system still prevails in a few cities, most notably in Rochester, New York, where the business leadership and the Blues have worked hard to keep it. But elsewhere community rating started to come apart in the Fifties and Sixties, when commercial insurers snatched business from the Blues by offering lower prices to companies with healthier work forces. If young joggers predominated at your company, the sales pitch was hard to refuse. Why pay rates that subsidize somebody else's workers who are older, sicker, and flabbier?

To stay competitive, the Blues abandoned community rating in most places. Even health maintenance organizations like Kaiser Permanente, which long believed that its social mission was to offer the same price to all, have reluctantly begun to tailor their premiums. Kaiser draws the line at practices that have given health insurance a bad name among small-business men. Says Chairman James A. Vohs: "We don't kick out small groups, even if your grandmother gets sick and comes on the payroll."

The ranks of the uninsured are growing, for reasons that go beyond risk selection. More workers toil in low-wage service or temporary jobs that pay no fringe benefits. Because of

33 MILLION WITH NO HEALTH INSURANCE

Work status of family head



Family income

Over $30,000	22%
$20,000–$29,999	17%
$10,000–$19,999	31%
Under $10,000	30%

SOURCE: EMPLOYEE BENEFIT RESEARCH INSTITUTE

Who's caught in the crunch: New Census Bureau data for 1988 show that half the uninsured are full-time workers and their dependents. Some are far from poor.

budget constraints, the federal-state Medicaid program finances health care for only 40% of those below the poverty line, vs. 65% in the mid-Seventies. Among Americans younger than 65 and thus ineligible for Medicare, says Katherine Swartz of the Urban Institute, about 18% lack health insurance, compared with 13% in the late 1970s.

Why not scrap the hodgepodge U.S. health insurance system and start over? According to the Noble Lowndes benefits consulting firm, medical costs have mounted to nearly 14% of payroll for all companies; in firms paying low wages the cost can easily surpass 20%. Some business executives have begun yearning for government to take over this obligation. "The frustration level is growing," says Karen Berg Brigham, manager of health care policy for the U.S. Chamber of Commerce. "People with an innate mistrust of government have begun to say that national health insurance may not be a bad idea."

BARTH FALKENBERG

Scorched by health costs: Ohio parts maker Harry Featherstone

The most alluring model is in Canada, where the government pays doctor and hospital bills for everybody, and medical expenses are a lower percentage of GNP. Such a system has no more chance in the U.S. Congress than a polar bear in the Everglades. Business lobbies like the Chamber of Commerce are strongly opposed. The extra tax burden would be hundreds of billions a year. Carson Beadle, a managing director of the William M. Mercer benefits consulting firm who hails from Canada, has another objection: "Up there the health budget has to compete with the military, highway spending, and everything else." And while nobody has to worry about paying, you can wait a long time for care.

The grand designs coming out of Washington would plug the holes in the U.S. health insurance system. While the bells and whistles vary, most of the proposals follow the same basic principles. An expanded Medicaid or successor system would handle the poor and the jobless. Employers would be *required* to cover the two-thirds of the uninsured who are workers or their dependents, with premiums for the near poor subsidized by the government.

Among the most prominently sponsored proposals are virtually similar bills from Senator Edward Kennedy of Massachusetts and Representative Henry Waxman of California, both Democrats, making health benefits obligatory. A commission headed by Democratic Senator John D. Rockefeller IV of West Virginia has called for an employer mandate with a wrinkle: a dual option similar to the "play or pay" law that takes effect in Massachusetts in 1992. Employers could comply by buying health insurance, or they could pay a fixed percentage of payroll into a government-financed health plan.

Business naturally hates these proposed requirements and always has. A recent survey by the National Federation of Independent Business, whose members employ ten workers on average, shows that a third pay no health benefits. Half of that third said they would cut jobs, trim hours, or close their doors if forced to provide coverage. Says Deborah Steelman, who advised candidate Bush on health policy in 1988 and heads one of Washington's study commissions: "Mandating insurance is a nonstarter politically."

Maybe in Washington. But in state capitals it is building power. Hawaii already has a mandate, and in California the idea of a state takeover of health insurance is so politically strong that a group of major insurers, hoping to offer a more attractive alternative, has accepted the notion of an employer mandate.

ELSEWHERE AS WELL, the insurance industry is trying to fend off heavy-handed political solutions with proposals of its own. The boldest comes from Robert Laszewski, executive vice president of Liberty Mutual in Boston, who would require community rating for all businesses with fewer than 100 employees. Insurers serving an area would be required by law to sign up any small outfit seeking coverage. Such rules, Laszewski says, would have a favorable side effect: They would transform insurers into watchdogs over medical expenditures. "We must drive insurance companies to compete on the basis of which can best manage their customers' health care dollars," he says, "not which can churn business and find the cream most effectively."

Among commercial insurers, reactions to this idea range from applause to apoplexy. Big carriers, because of their size, could survive and even prosper under community rating. At the other extreme are some small insurers with limited pools of enrollees, which could go bankrupt if they attracted more than their share of the sick.

In the middle, with the job of crafting a consensus in a 320-member organization almost as fractionated as the new Hungarian Parliament, is Carl J. Schramm, president of the Health Insurance Association of America (HIAA). In February the group agreed on a general set of principles that would fundamentally change the way insurers serve companies with 25 or fewer workers. The plan requires federal and state legislation to make the whole industry play by the new rules, and Schramm puts the chances of passage at better than fifty-fifty within three or four years. Connecticut, home to some of the biggest carriers, is considering a bill that would usher in similar reforms, and a committee of state insurance commissioners is drafting model legislation with a similar thrust. So the HIAA plan is worth a close look.

No employer would be denied coverage, even if half of those on the payroll tested HIV-positive. For such workers and for others with serious preexisting illnesses, benefit payments could not be delayed beyond a one-year waiting period. Once on board the in-

REPORTER ASSOCIATE *Rosalind Klein Berlin*

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surance system, neither a company nor one of its workers could be dumped, no matter how high the medical bills. Employees with serious illnesses could stay covered without interruption if they switched jobs—a change from today, when thousands are chained to jobs they hate for fear of losing benefits.

Insurers could still vary premiums widely by industry and the age mix of a small group's work force. But the HIAA reforms would narrow the range of premiums and rate increases. Whatever a company's subsequent claims experience, its premiums would never exceed those of similar age and occupational groups by more than 50%. To make sure no insurer bled financially from taking an outsize share of the ill, all the carriers would pay assessments to a newly created reinsurance system—a kind of insurer's insurer—to pay the bills for the serious cases.

Insurers have at last realized that the health insurance mess is a market opportunity.

Assuming this elaborate mechanism succeeds, lowering the costs for some sickness-prone companies would obviously mean raising them for others. But the rise in premiums for healthy groups, says Richard Hill, vice president for small business and individual health insurance at Prudential, would be "just a few percent."

In one stroke the HIAA is offering guaranteed coverage to an estimated ten million uninsured American workers in tiny firms and their families. Moreover, says Schramm, the reform package would "stop the unraveling" of insurance for those who have it.

BUT SOME EMPLOYERS still won't be able to afford the product because medical costs are rising so fast—about 9% a year. The best eventual answer to that problem is a statistical research effort, just getting into high gear in the health establishment and government, to determine which medical procedures and tests are worth the cost and which could be dropped. But in the meantime, business can bargain-hunt in health care as zealously as it does when buying raw materials and parts. In cities such as San Diego, Seattle, Chicago, and Denver, coalitions of small and big companies have won impressive discounts from groups of doctors and hospitals.

In addition, insurers have at last realized that the health insurance mess is a market opportunity. The Blues have rolled out new low-cost health plans designed to reach the uninsured. ValuMed, a stripped-down package of benefits at about half the usual premium cost, is aimed at low-income families in the Rochester area without employer-paid benefits, such as Denice and Anthony Cavallo and daughter Christa (see photo). Only 360 families and individuals have bought policies, far fewer than hoped. Bigger expectations are riding on a Virginia plan for employers that provide no coverage. For this package only, the legislature has just waived the list of state-required treatments that normally must be included in health insurance plans. The Virginia plan goes on sale soon, and nearly half the target employers say they are interested.

A COMMERCIAL INSURER has already found that if the product is cheap enough, employers will go for it. Last summer in Denver, United States Life began selling one of nine health plans designed for the uninsured with the help of the Robert Wood Johnson Foundation. Total premium for the plan, which enjoys hefty hospital discounts: $118.10 a month for a family headed by a parent under 30. Scope, as the plan is called, is limited in scope like any low-cost plan that insurers are able to devise under today's medical inflation and their industry's ground rules: Certain occupations and severe preexisting illness are excluded. Moreover, about 42% of the 600 small firms signing on already had insurance and merely switched to Scope as a cheaper alternative. Nevertheless, says senior vice president David Dunn of United States Life, the response has been "truly extraordinary."

These are only pieces of the answer for the uninsured. Slowly but irreversibly, momentum is building for a more ambitious solution, and business is showing new interest in hammering out a consensus. Twenty-seven companies, including Ford Motor, AT&T, Kodak, and 3M, have just joined several unions and other organizations to form the National Leadership Coalition for Health Care Reform, which hopes to produce its own blueprint next year. The answer may ultimately have to be a law requiring all companies to buy health insurance for employees. But with insurers willing to go a long way toward making it more affordable, a government mandate now would be premature. F

THE HUNT FOR THE GLOBAL MANAGER

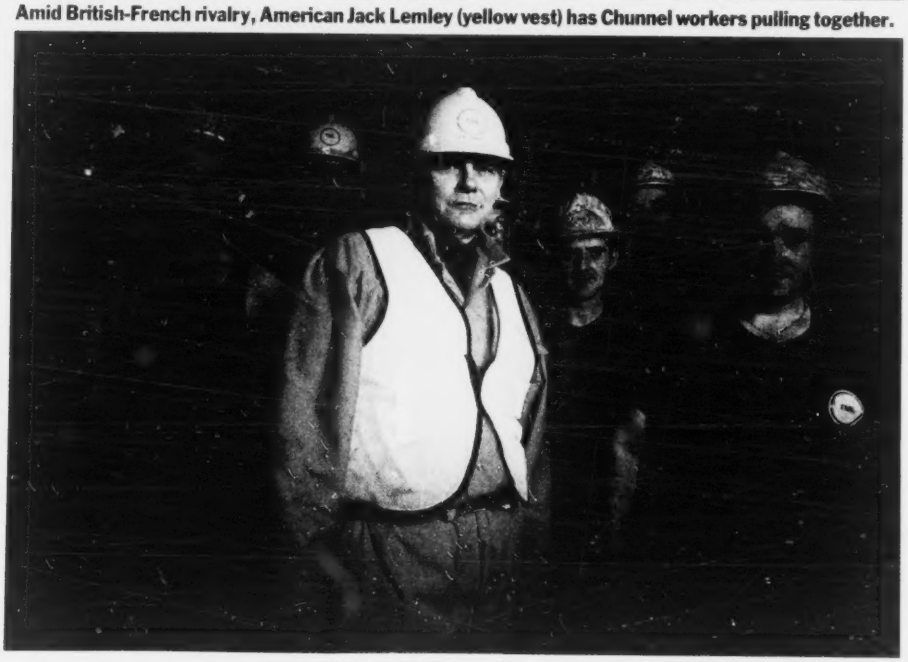
Good at languages and not overly bothered by jet lag? Your phone may ring soon. Headhunters are scrambling for executives who know how to do business across borders. ■ *by Shawn Tully*

JAN PRISING is a Swede who runs an American-owned company out of an office overlooking Lake Varese in Italy. He speaks five languages—but not Italian—and conducts most of his business in English. Is he unique? Not anymore. Prising, 51, is a corporate Viking, part of a growing cadre of executives who can manage across borders. Nor is the way he got his job so unusual, though it would have been a scandal only a few years ago. A headhunter lured Prising, a 21-year veteran of Sweden's Electrolux, by offering salary and bonuses that could reach a very un-European $500,000 a year.

The hunt for the global manager is on. From Amsterdam to Yokohama, recruiters are looking for a new breed of multilingual, multifaceted executive who can map strategy for the whole world. The action is especially heavy in Europe. To prepare for the wide-open world of 1992, companies are pushing out their traditional managerial corps of stodgy engineers and aristocrats. For replacements, they have turned to specialists they once haughtily ignored, executive search firms. And the headhunters have turned to U.S. multinational corporations as the most fertile hunting ground.

The market for executive search is exploding. According to a study by Economist Publications Ltd., the London-based financial publishing firm, the net revenues of Europe's dozen biggest executive search firms have been climbing more than 15% a year, reaching almost $300 million in 1989. And that's just the beginning. Says Lester B. Korn, chairman of the world's biggest executive search firm, U.S.-based Korn/Ferry International: "Europe will be the world's fastest growth market of the 1990s, outperforming even the Pacific Rim."

Amid British-French rivalry, American Jack Lemley (yellow vest) has Chunnel workers pulling together.



Europe's headhunters are just as glamorous, highly paid, prestigiously educated—and at least as cosmopolitan—as the candidates they're paid to track down. One Swiss giant and four mainly U.S.-based competitors dominate the industry (see chart). The leader in Europe, and the third-biggest search firm in the world, is Zurich-based Egon Zehnder International. About 70% of Zehnder's $80 million in revenues comes from Europe. Run by founder Egon Zehnder with the low-key efficiency of a private Swiss bank, the firm ranks first or second in most big European markets, including France, Italy, Switzerland, Belgium, and West Germany.

While Zehnder is pushing to expand its small U.S. business, the company's rivals are using their strong bases in the U.S. to attack Europe. The most European is Spencer-Stuart, a solid old-line firm that is owned equally by partners in North and South America, Europe, and the Far East, and derives 36% of its $80 million in revenues from Europe. Cultivating a swankily aggressive image is the world's second-largest firm, Russell Reynolds Associates Inc., with revenues of $85 million according to *Executive Recruiter News*. A powerhouse in financial services in London, the firm has chauffeur-driven Jaguars shuttle clients between the City of London and its stately offices in Saint James Square.

The two fastest-growing firms—Heidrick & Struggles and Korn/Ferry—are winning new business all over Europe. Heidrick & Struggles, low-key and Continental in style, has surged from virtually nowhere in 1985 to generate European revenues of $21 million. It is No. 1 in France. Korn, which takes the hard-nosed American approach to the business, runs its European operations from Brussels. The company stumbled badly in Europe before hitting its stride in 1985. Chairman Korn has grand plans for Europe. He wants to quadruple

PHOTOGRAPHS BY SERGE COHEN

Dean of Europe's headhunters is Egon Zehnder. He sometimes drives from his seven-bedroom home to his Zurich office (rear) in this 1951 Mercedes 170-S.

European revenues to $100 million by 1995.

The executive search boom came first to Britain because of financial deregulation and industrial restructuring that created strong demand for managers with a knack for cutting costs. The focus then shifted to the Continent. Northern Italy is in the midst of an industrial renaissance that has spawned companies hungry for European expansion—and managers who understand foreign markets. "Increasingly executives have a responsibility for more than one country. The key is the ability to see how each decision affects the rest of the European chessboard," says Philippe De Backer of Carré Orban & Partners International, a hot European-based recruiter. The fastest growth is in West Germany, where headhunting was illegal until the late 1970s.

REPORTER ASSOCIATE *Shelley Neumeier*

TOP FIVE IN EUROPE

Company	Revenues (in millions) Europe	Total
1. Egon Zehnder International	$55.0	$80.0
2. SpencerStuart	$28.6	$79.7
3. Russell Reynolds Associates	$28.0*	$85.0*
4. Korn/Ferry International	$26.1	$103.3
5. Heidrick & Struggles	$20.6	$66.8

*Estimate

Experience with other companies is increasingly prized. "Today it's essential for a 45-year-old marketing manager to have had several jobs," says David Kimbell, worldwide chairman of SpencerStuart. Thorn EMI, the British music, software, and appliance rental company, transformed a stuffy management accustomed to lifetime employment into a far more daring—if less stable—team of entrepreneurs. From 1983 to 1988 the company replaced about 130 of its top 150 managers, at least half through headhunters. Today the average executive is 44 and has had three previous jobs, vs. none eight years ago. Says personnel director Don Young: "I expect senior executives to commit to about five years."

According to headhunters, the best cross-

border managers started out with U.S. multinationals. Says Baldwin Klep, a partner at Heidrick & Struggles: "More than 50% of the executives I place in Europewide positions came directly from U.S. companies."

Zehnder's search last summer for a new chief executive for Transmanche Link, the Franco-British construction consortium building the $12 billion tunnel under the English Channel, ended in Nepal with American Jack K. Lemley, 56. The onetime Morrison Knudsen Corp. executive was a consultant on a hydroelectric project outside Katmandu. The Chunnel's construction has been plagued by cost overruns and bickering between Transmanche and the owner, Eurotunnel. Transmanche wanted one of the world's best project managers—in a hurry.

MAURO VALLINOTTO

A headhunter bagged Jan Prising, here in his Whirlpool office near Milan, at a moose hunt in Sweden.

A strapping 6-footer with a bruising handshake, Lemley unwinds practicing white-water rafting from Colorado to New Guinea. His résumé reads like a glossary of the world's most ambitious construction projects, including a 13.5-mile water tunnel under Manhattan in the early 1970s and a segment of Saudi Arabia's $7 billion King Khalid Military City a decade later.

Lemley wins praise from both Eurotunnel and his own employees by vastly improving coordination between the separate French and British construction crews. The project is on schedule for completion in 1993. "It's an advantage to be a third nationality," says Lemley. "Unlike a British or a French manager, I can't be accused of taking sides."

The new marketing manager for Cadbury-Schweppes PLC's European beverage operation is Joost Pabst, 38, a Dutchman recruited by Egon Zehnder from Colgate-Palmolive Co. in New York City. Until recently Cadbury operated its $650 million European soft-drink business as a collection of national subsidiaries. As a result, its Schweppes brand had radically different pricing and advertising in different markets. The Germans saved their expensive tonic for special occasions, while the Spaniards downed it as a summer thirst quencher.

Pabst, based in Barcelona, is creating a single image for Schweppes in Europe, that of a classy but popular soft drink. "What sold me on this job was the chance to manage brands Europewide," says Pabst. "Sure, there are differences in tastes. But they're not as big as people think. We're doing everything possible to achieve economies of scale by exploiting the similarities between markets."

The successful hunt for Jan Prising illustrates how restructuring is driving the new recruiting surge. Last year Whirlpool Corp., the U.S. appliance maker, paid $470 million for a 53% share of the $2-billion-a-year European appliance business of Dutch electrical giant N.V. Philips' Gloeilampenfabrieken. To find someone to run his new unit, Whirlpool CEO David Whitwam turned to Roddy Gow, the managing director of Russell Reynolds's London office. After a three-continent search, Gow finally got Prising in his cross hairs—as well as some moose—during a hunting party sponsored by Russell Reynolds.

A headhunting spree has produced a United Nations of sorts in the Paris headquarters of Alcatel. Says human resource manager Paul Claudell: "We don't want French domination." The joint venture of Cie Générale d'Électricité and ITT Corp. includes CGE's telephone businesses and ITT's European operations. The company is out to win a big share of the emerging pan-European market for telecommunications equipment. Of the 120 top executives in Paris, 60% aren't French.

Alcatel's finance department is motley: an Italian, a Swede, a Portuguese, a Dutchman, and a Belgian, all recruited in the past two years by firms such as Korn/Ferry and Egon Zehnder. The Swede, 32-year-old Harald Bauer, was plucked from a top finance post at a large Swedish trading company to become controller for Alcatel's subsidiaries in Scandinavia and parts of France. "Having a Swede in this job definitely improves communications," says Bauer. "The management here is still very French and hierarchical. With the mix of nationalities, that should change quickly."

NO ONE IS ENJOYING the hard-won respect of executive searchers more than Egon Zehnder. The tall, balding Zehnder, 60, looks like a sober-suited banker but exudes the gusto of an entrepreneur. A father of five, he lives in Zurich in a seven-bedroom house furnished with 18th-century French antiques and equipped with an air-conditioned wine cellar. There is a swimming pool behind the house, but Zehnder would not dream of swimming a lap. His prescription for good health is typically offbeat: Avoid exercise. "It's basically unhealthy and stressful," he says. "Just look at those skiers with their wheezing, unhappy faces!"

Scion of a prominent Zurich family, Zehnder earned a law degree at the University of Zurich and then headed for the U.S. and Harvard business school. On his way, he spent a few days traipsing around Manhattan, vainly using his broken English to try to sell Swiss candles to Macy's and Saks Fifth Avenue. The next summer Zehnder sold kitchen knives door-to-door in Los Angeles, working nights as a stevedore.

After graduating in 1956, he worked briefly for advertising agency McCann-Erickson in New York City, returning to Europe in McCann's Düsseldorf office. In

ADAM LUBROTH

Hunted: Joost Pabst now markets Schweppes out of Spain.

1959, Zehnder accepted a personal offer from Spencer Stuart to open his first executive search office in Europe. "I knew Stuart was onto something," says Zehnder. "The executives working for my advertising clients were mostly unqualified pseudo-aristocrats who owed their jobs to family connections."

He ran into plenty of resistance in those early days. He usually found his mailbox filled with threatening letters from companies whose executives he'd tried to recruit. He says, "I kept telling the presidents and personnel managers that if you believe in competition for products, why not for senior executives?" Zehnder quit to form his own firm in 1964. Says he: "Stuart wanted to throw cocktail parties and press functions, to do things the U.S. extrovert way. I knew if I behaved discreetly and professionally, search would eventually be accepted in Europe."

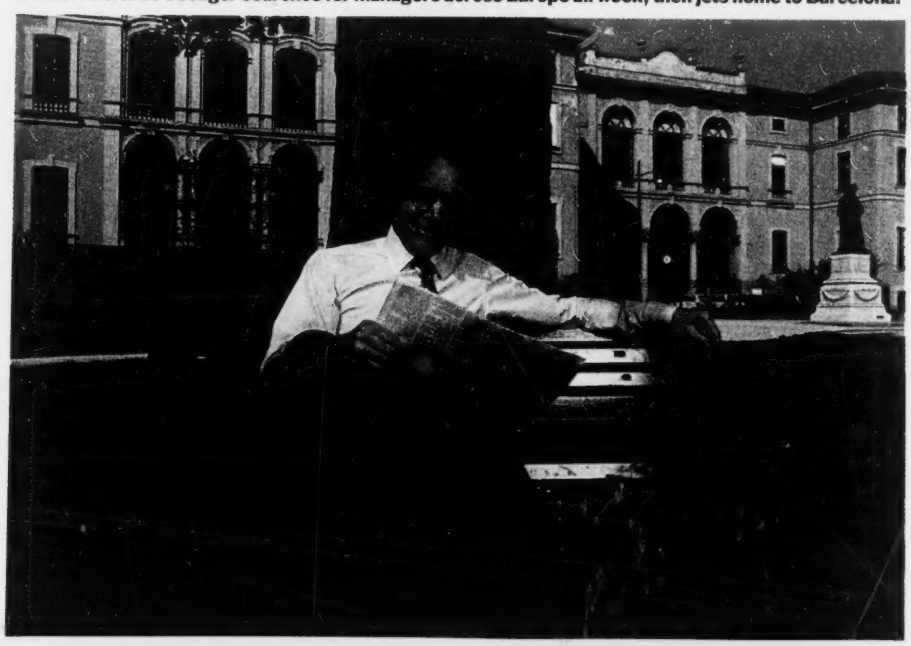
FROM THE START, Zehnder used his recruiting skills to staff his own firm. For Europe, he hires Europeans and Americans in their early 30s who have earned MBAs from the best U.S. business schools or top international institutions such as Insead in France. A recent recruit is Erik Slingerland, 34, a Dutchman with a law degree from the University of Zurich and an MBA from the University of Virginia. He was hired from Swiss pharmaceuticals company Ciba-Geigy—where he worked as a controller in Brazil and Switzerland. Slingerland speaks French, German, English, and Portuguese, as well as Dutch. Says he: "Egon convinced me that we were as important to clients as other professionals such as lawyers."

More to the point, the business is fabulously lucrative. Zehnder, like all the other big firms, never works on contingency. For each assignment, the company charges a fixed fee, depending on the number of offices, consultants, and hours needed to carry out the search. Assignments range from finding $80,000-a-year marketing managers for local subsidiaries of multinational companies to recruiting chief executives earning $1 million or more. For a typical four-month assignment—finding a $250,000-a-year chief financial officer for a big West German company—Zehnder would charge between $80,000 and $120,000. All of the firm's 67 partners, including Zehnder, are equal shareholders. Each year the partners split up as much as $15 million in bonuses and dividends. Amazingly, the money is divided not according to performance but based on seniority. Partners with 15 years or more of service earn up to $600,000 per year, while new partners in their late 30s make about $200,000.

Since compensation isn't related to billings, Zehnder says, colleagues in different offices work together smoothly instead of squabbling over how to divide fees. Turnover is low. But many competitors are unconvinced. "Zehnder's system is absolutely crazy," says Gerard Clery-Melin, the Frenchman who heads Heidrick & Struggles Europe. "It encourages people to do nothing. We have fights, tension, and turnover—it's healthy. Stability is not as important as Zehnder thinks."

Like the candidates they're seeking, the Euro-headhunters now operate across Europe rather than in separate national markets. Heidrick & Struggles reckons that revenues from Europewide assignments—almost nil a few years ago—now account for 15% of European billings and are increasing at 40% a year. The firm has established a group of eight consultants in Europe who work exclusively on international assignments. Each consultant handles a search in its entirety, interviewing candidates wherever they live.

Hunter: Gerardo Seeliger searches for managers across Europe all week, then jets home to Barcelona.



MAURO VALLINOTTO

THE DASHING new image of the Euro-headhunter befits Russell Reynolds veteran Gerardo Seeliger. A handsome 42-year-old Spaniard with an economics degree from West Germany's University of Freiburg, Seeliger competed on the 1972 Spanish Olympic sailing team alongside his close friend King Juan Carlos. He served as marketing director of West German sporting goods maker Adidas in the mid-1980s. Such hands-on experience is a must for handling international searches, a niche he helped create in Reynolds's London office. Seeliger typically spends part of each week in London, Paris,

Frankfurt, and Milan—where he speaks all the local languages—and jets home to Barcelona for weekends.

For Seeliger, the big challenge of the 1990s will be overcoming a severe shortage of Euro-managers. He says the problem isn't the attitude of the gung-ho young executives: "Managers in their 30s are totally different from their fathers. They're hungry; they'll move to a new European city tomorrow." Rather, it's that few companies—even globe-trotting Dutch or Swedish ones—systematically develop international managers by rotating young executives through a series of foreign assignments.

Finding—and training—the best cross-border managers will be crucial to reaping the benefits of 1992. Headhunters will be indispensable. Seeliger, in fact, plans to open his own consulting business to find and train managers for Eastern Europe. But the future belongs to companies that not only find the whiz kids but also hang on to them. The winners will be companies that stop paying lip service to 1992 and prove they believe in it—creating the exciting, cross-border jobs that tomorrow's Euro-managers will thrive on. F

THE SWITCH IS ON IN JAPAN

Lifetime employment in Japan is unraveling, which is wonderful news for headhunters. When the boss of a Tokyo software company opened the door of his design department a few months ago, he found the room deserted. The entire department had been recruited by a rival company. In a recent survey, a record 38.5% of Japanese managers between ages 20 and 39 said they were thinking of switching jobs. Executive search firms have sprung up accordingly. The number in Tokyo has risen from about 50 to more than 250 in the past five years. Japanese headhunters control 90% of the business, serving both foreign and local companies desperate for qualified managers. But the international firms, which arrived about ten years ago, are also enjoying a booming business.

Traditionally, Japanese companies hired grads of the top universities and hung on to them forever. Now that so many companies are expanding overseas or diversifying into new businesses, they can no longer depend on this system to provide the right people in all circumstances. The taboo against hiring executives from other companies is breaking down.

Kawasaki Steel, for example, is using headhunters to fill management jobs in its new electronics division. "Since we expect our new business to take at least ten years to get established, we'll be depending on headhunters for some time in the future. It's more efficient," says a Kawasaki executive. An executive for a large office equipment company adds that his company has used headhunters to find administrators and accountants, particularly those who know English, to handle overseas accounts.

Loyalty is diminishing. Says Megumi Fujii, who left Nomura to found his own executive search company: "What employees expect from the company has changed. If they don't get things like vacations, good promotions, good pay, they will switch their loyalty if they get the opportunity." Adds Setsuko Egami, editor of *B-ing*, one of Japan's fast-growing job-placement magazines: "The virtue of work used to be its own reward. Now the virtue of work is money. This doesn't mean that Japanese aren't continuing to work hard and produce good work. They do. They just don't bother about which company as much."

Even bureaucrats can be lured from their posts, according to Seiro Takehara, president of IMCA, one of Japan's oldest executive search firms. Says he: "Their loyalty to country is dwindling. They are more interested in enhancing their work experience and their salaries."

Headhunting in Japan is also becoming multinational. Takashi Kurisaka, a partner at Egon Zehnder International in Tokyo, recently was asked to find a top European designer for a major Japanese automaker. "They could have bought designs from a European firm," he says, "but they wanted the designer to work with all their departments. They wanted someone who would inject a new vision." Zehnder found a French designer working in West Germany and brought him to Japan.

Still, says Kurisaka, executive search has not been totally accepted in Japan. Says he: "People are still brand conscious. Joining Mitsubishi Bank provides social prestige. I've had people say they will consider a switch after they marry off their daughter."

TAKESHI YUZAWA

Kurisaka at work: finding a French car designer in Germany

Perhaps the biggest change in attitude can be measured by the response Japan's headhunters get when they call a prospect. Says Yoshiyuki Okamoto, president of Cambridge Corp., a leading executive search company in Tokyo: "A few years ago we were treated like buzzing flies, a real nuisance. Today people only act flattered." **- Carla Rapoport**